

OPENING YOUR OWN OFFICE: WHAT IS THE COST?

By Edward Poll



Edward Poll



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CONGRATULATIONS! YOU'VE MADE THE DECISION TO GO SOLO, TO OPEN YOUR OWN OFFICE, AND TO BUILD YOUR OWN DESTINY. THERE'S SO MUCH TO DO AND SO LITTLE TIME TO DO IT, IT'S HARD TO KNOW WHERE TO START. LET'S TAKE A LOOK AT THE MAJOR EXPENSES OF OPENING A SOLO PRACTICE.

A Place to Be

Obviously, you need a place to practice. Today, there is more than one option. First, you can work out of your home. This is the least expensive route since you are already paying rent or a mortgage, and you will not have to duplicate the expenditure by renting separate office space. But, there are distinct disadvantages such as being out of the mainstream of lawyer and client contacts, as well as having to convert living space into an office that is separated in an effective way so that you can concentrate and perform your work. This approach may also increase your marketing expenses by increasing your travel costs to reach clients and compelling you to go outside of your home to a restaurant or other facility to meet clients and prospects as well as to interact with other attorneys.

Another solution is to rent barrister or executive space from landlords who specialize in short-term rental agreements with lawyers and other professionals. The cost of this space is less than a full suite of offices, but more than the cost of working out of your own home. In this case,

for an office and secretarial bay, plus a telephone, library, and photocopy services, figure on about \$2,500 per month. Since each geographic area has its own cost scale, use this figure only as a guide or starting point.

Yet another option is renting an office in an existing law firm on a month-to-month basis. The law firm reduces its cost of operation this way, and, depending on the practice areas of both the sub-tenant (you) and the tenant (the law firm), there may be an opportunity to refer work back and forth. Also, in this arrangement you may be able to offer a certain number of hours (10, for example) per month in exchange for the space. This approach would clearly reduce your monthly cash outlay.

continued on page 7

**MCLE: Opening
Your Own Office
Page 1**

**Test for MCLE
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Page 9**

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opening your own office continued from page 1

Equipment, Supplies, and More

After you've obtained the space, you'll need to furnish it. In some cases, you will be able to rent a furnished office. If not, you'll need to either rent or purchase furniture. That furniture will include your desk and chair, client chairs (two minimum), a couch, filing cabinet(s), side table, and other related items depending on the size of the office and your personal taste. (Suggestion: Do not use your couch and chairs to store your "active" files, no matter how tempting!)

If you are in your own office as contrasted to a suite with other professionals, order the requisite number of telephones: your primary office phone on your desk, another phone on the side table in easy reach for your clients to use, and a phone for the receptionist. Use a phone system with all the bells and whistles and learn how to use them; this will make you money! The telephone is the least-expensive mode of marketing. Pay attention to both it (the phone system) and your telephone policies.

Start up costs also include stationery and other office supplies. Don't scrimp on stationery or business cards; these items are your eyes to the world. They are often your image before the prospect ever sees you. You can contact Stuart F. Cooper Co. (www.sfcooper.com), one of the largest engravers in the legal community, to get these supplies, including the design of your logo and firm name. Another \$500 should be sufficient here for your initial supply, perhaps slightly more if you include printed announcements.

Library costs used to be a large expense item. Today, you can get much of your research needs without books (and without the real estate space to house them) by contacting WestGroup, Lexis, Loislaw, and others for electronic access to huge libraries of information. You may still want to acquire some books in hard copy and keep them close to your desk for frequent use. These include form books, treatises in your specialty practice area, and the like. The space required for these books will be substantially less than in earlier days.

Technology will be one of the large start-up costs. The latest and greatest versions of a computer (PC or laptop with built-in fax), printer, monitor, scanner, and related items can be purchased for less than \$10,000, or depending on your needs, less than \$5,000. This hardware typically comes with some software for word processing and spreadsheets already installed.

Other software requirements vary depending on your needs. The price can go from a few hundred dollars for the basics including QuickBooks or another accounting package or practice specialty item (family law, for example) to several thousands of dollars for technical or uniquely specialized programs (litigation support programs, desktop managers, and so on). And here, don't be fooled by the initial cost of the software. The real and larger cost is the time and effort required to learn how to use the software effectively and efficiently. Also, don't forget to add in the time necessary to get your staff over the initial learning curve.

Let's turn to the Internet. Clearly, in today's world, you need to be connected. While this charge may not be more than \$50 per month, that is just the first step. You should build a website and maintain it. The design cost here may be as little as a few hundred dollars or as much as \$10,000, depending on the nature of your practice and the level of sophistication of your prospective clients; the greater their sophistication, the greater must be the sophistication of your site. And then there is the monthly or yearly site maintenance fee that should include periodic, but simple, changes to the site. This may cost another \$100 to \$300 per quarter. And, again depending on your prospective clientele, you may need to get into the more sophisticated, and more expensive, Intranet capability.

"Road Warrior" equipment such as cell phones, personal information managers (PIMs), personal digital assistants (PDAs) such as Palm Pilot, iCompaq, and others; e-mail equipment (BlackBerry, for example), and the like can be expensive, costing as much as another \$2,000 for the several units you may want. Even combining a cell phone and a PDA will, by itself, still cost at least \$500 in today's market. And, there is a monthly charge to operate these units. This charge can vary significantly depending on your usage.

Insurance

Before you open your doors to business, there is another major expenditure: errors and omissions insurance. Many lawyers are not currently attracting enough business in terms of fee-paying clients to meet all their expenses on a regular basis. They are thus forced to go without malpractice insurance, also called "going bare." If you have nothing to lose, or if you have no assets such as a house or securities account, then your downside may

continued on page 8

opening your own office continued from page 7

not be that great if you are sued by a client and have a judgment entered against you. However, this is not an appealing prospect.

It is better to carry an insurance policy. Consider it just another cost of doing business. And, as a new lawyer, there are insurance companies that provide coverage at nominal rates because they figure you don't have a long history of mistakes behind you, and you're probably as current with the law as anyone can be, having recently left law school. If you've been in practice for a while, the cost of the insurance coverage may be upwards of \$2,500 per year, depending on your practice area.

Other important insurance policies that should be considered are: general liability, sexual harassment, and business interruption. These three, separately or together, will add to your protection and should cost from \$500 to \$1,500 total.

Employee Compensation

While you could practice truly alone for a while, you will eventually need a secretary and, hopefully, a filing clerk and paralegal; perhaps even an associate. In the early stages of your practice, staff personnel can be hired on a part-time basis for, say, 20 hours per week, spread out during the week.

Later, you may want to engage another attorney, without the concomitant overhead. One way to do this, at least until you bring in enough work on a regular basis to afford hiring a full-time associate, is to hire contract legal work. There are lawyers who, for life-style or other reasons, don't want to work full-time. They are good lawyers and are willing to work for fees in the area of \$50 per hour. When you can charge your clients \$100, or more, for this work, you are way ahead of the game. You not only save on overhead, but you avoid a long-term commitment before being ready to make it because of the lack of certainty of repeat business.

Marketing Expenses

Another out-of-pocket expense item is the cost of marketing. Marketing also called "practice development" simply means getting and keeping clients. Some marketing, like advertising, is obvious. Other forms are not. Developing and distributing brochures and announcements for your practice, travel and entertainment to network with prospective clients, public speaking, leading seminars, publishing newsletters, maintaining a website...these are

all marketing activities. And, they all cost money.

While marketing is an essential part of starting and maintaining a law practice, the key to controlling its costs is this: marketing has to be carefully planned. Don't make decisions to spend money on advertising or brochures on the spur of the moment. A well-conceived marketing plan takes into account the firm's goals and direction and considers all marketing options in coming up with the most appropriate strategy.

The Cost of Accounts Receivable

Another expense in starting a law practice that is little discussed is the impact of creating and carrying accounts receivable. The average length of time it takes a client to pay a lawyer's bill is about 120 days, according to several statistics I've seen. Let's see how this develops.

First, it takes you 30 days to do the work and get a billing statement out of your office, assuming the best of circumstances. It will take the client at least 30 days to process payment. That's 60 days. And, if it takes you, or the client longer to process the statement or payment, voila! you're at 120 days. There are ways to reduce this figure, but let's work from the average so we can assure your survival and success. Thus, for at least the first four months, you will not be collecting any revenue! And, that assumes that you can get a fee-paying, economically viable and satisfied client on the first day (or at least the first few days) of opening your door. This absence of revenue, while not an expense, must be considered in determining the cost of opening your law office.

One way to soften this blow is with a reserve of funding. Whether from savings or a loan, a good Rule of Thumb is: After your initial start-up costs, have a reserve of money equal to your anticipated first six months of cash outflow. That amount should be calculated by using both the office expenses anticipated and your living expenses (taking into account that there will be no compensation from the law practice during this time).

Keeping Track

All this expense (and revenue) information should be plotted onto a spreadsheet month by month for the next 18 months, and maintained on a rolling calendar basis. When you get the information for last month and compare the actuals with the projected, you then go to the end of

continued on page 16

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QUESTIONS: COST OF OPENING YOUR OWN OFFICE

1. What's the least expensive space to work from?
2. Name one or more disadvantages of working from home?
3. What is "barrister" or "executive" space?
4. Name one or more advantages of renting an office in an existing law firm?
5. The telephone is the least-expensive mode of marketing.
True **False**
6. You can get much of your legal research needs met without books.
True **False**
7. As an expense area, technology is one of the smallest in terms of start-up costs for a law firm.
True **False**
8. The real and larger cost of software is the time and effort required to learn how to use it effectively and efficiently.
True **False**
9. What does PIM mean? What about PDA?
10. What factor or factors determine the cost of building and maintaining a law firm website?
11. What is it called when a lawyer practices without having malpractice insurance?
12. Besides malpractice insurance, what are three other important types of insurance policies lawyers should consider having?
13. In the early stages of your practice, staff personnel can be hired on a part-time basis spread out during the week.
True **False**
14. What are one or two advantages of hiring contract legal work versus engaging another attorney?
15. What is the simple definition of "marketing"?
16. What is the key to controlling marketing costs?
17. What is the average length of time it takes a client to pay a lawyer's bill?
18. What is the "Rule of Thumb" for determining how much reserve funding is needed for a law-firm start-up?
19. How many months should a rolling financial spreadsheet contain?
20. What is the final, non-financial cost consideration for opening a law office?



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the 18 months and add the next month, thereby always maintaining an 18-month projection.

Psychology tells us that we tend to achieve what we visualize. Or, said from the perspective of the avid cyclist that I am, my bike tends to go where I look. If I look only at the road directly in front of my wheel, I can easily crash. If I look further down the road, I will reach that spot even if there is a curve in the road.

To help you keep track of your costs, use a form by creating your own Excel spreadsheet. You can also purchase business planning books such as *The Profitable Law Office Handbook: Attorney's Guide to Successful Business Planning*, written by the author.

Needed Support

A final cost consideration for opening a law office is not really financial in nature. You must

have the support of your family, your spouse, or your significant other. Without their emotional support, you will not have the peace of mind necessary to succeed. Do not dismiss this aspect as being assumed or insignificant. With the emotional (and sometimes financial) support of your loved ones, you can conquer the world.

Best wishes and good luck with your success!

Edward Poll, J.D., M.B.A., CMC, is a certified management consultant and coach who advises attorneys and law firms on how to deliver their services more profitably. He is the author of Attorney & Law Firm Guide to The Business of Law: Planning & Operating for Survival & Growth, 2nd Ed., (ABA, 2002), and Collecting Your Fee: Getting Paid from Intake to Invoice (ABA, 2002). He is also the creator of Law Practice Management Review: The Audio Magazine for Busy Attorneys. To make suggestions or comments about this article, call (800) 837-5880 or send an e-mail to edpoll@lawbiz.com. You can also order a free e-zine or



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